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# Minutes

## Board of Natural Resources

May 4, 2004  
Natural Resources Building, Olympia, Washington

### BOARD MEMBERS PRESENT

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Gary Locke

Glen Huntingford, Commissioner, Jefferson County

Bruce Bare, Dean, University of Washington, College of Forest Resources

R. James Cook, Interim Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

### BOARD MEMBERS ABSENT

Terry Bergeson, Superintendent of Public Instruction

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### CALL TO ORDER

Chair Sutherland called the meeting to order at 9:10 a.m. on, May 4, 2004, in Room 172 of the Natural Resources Building.

### APPROVAL OF MINUTES

MOTION: Bob Nichols moved to approve the April 6, 2004, Board of Natural Resources Minutes.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

### PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

Becky Kelly & Marcy Golde - Washington Environmental Council (WEC) (Handout 1)

Ms. Kelly began by presenting a power point slide regarding the Z Harmony timber sale. She stated that within the context of a regeneration harvest, DNR staff seems to have done a good job laying out the sale. WEC's concerns regarding the Z Harmony timber sale include: the small amount of older forest in the Straits planning unit and the HCP's requirement for developing more old forest. WEC questions why DNR would harvest it when there are so many younger, less diverse stands available. The following are slides from Ms. Kelly and Ms. Golde's presentation (Handout 1):

- Older forest types required by the HCP are currently in very short supply (Table 4.2-4 SHC EIS)
- Less than .5% of the Straits Planning Unit is currently in the Fully Functional forest stand stage (150+ years). Only 4.2% is in Structurally Complex Forest (70+ years).
- How will DNR achieve the Fully Functional stands unless some of the stands currently entering the Structurally Complex stage, like Z Harmony, are retained?

#### *WEC's Response*

- To the left is an excerpt from Table 4.2-4 from the SHC EIS, which shows that older forest types required by the HCP are currently in very short supply.
- In order to provide older forest types "across the landscape" DNR will need to *plan* to develop them, especially in HCP planning units without Spotted Owl NRF and Dispersal habitat. The Straits Planning Unit, where the Z Harmony sale is located, has no NRF and dispersal.
- Using acreage figures from Table 4.4.-1 in the SHC EIS, less than .5% of the Straits Planning Unit is currently in the Fully Functional forest stand stage (150+ years). That must reach 10-15% by 2097. For Structurally Complex forest (70+ years), the number is currently 4.2% and must reach 25-35% by 2097.
- How will DNR achieve the Fully Functional stands, especially in the Straits Planning Unit, unless some of the stands currently entering the Structurally Complex stage (like Z Harmony) are retained?

#### *Additional Issues*

- Under a budget proviso passed this year, DNR needs to publish notice if they plan to log any trees 160 years or older.
- If sale goes ahead, mark more diverse leave trees to perpetuate the diversity of the stand.
- Difficulty of identifying boundaries of leave trees "areas" marked with tags/signs rather than paint on individual trees.

#### *WEC's Response*

- Under a budget proviso passed this year, DNR needs to publish notice if they plan to log any trees 160 years or older. Don't know whether that was complied with for this sale (because we're not sure how old some of the big trees being logged are).
- Seem to have done good job marking big Douglas Firs, but it seemed that more old cedar, maples and other species should have been marked to leave, to perpetuate the diversity of the stand.
- Concern that loggers will be unable to clearly understand which trees are to be left.

#### *WEC's Request*

- Defer the Z Harmony Sale until the Sustainable Harvest Calculation Implementation Plan (or other landscape level planning) for the Straits Unit is completed and identifies stands which will become the 25-35% Complex forest and the 10-15% subset of that which will become fully functional stands, and when those requirements will be achieved.

#### Stan Russell - Pubic Citizen

Mr. Russell stated that he and his wife live near the Z Harmony tract. He described the tract as having old growth, developed under story, and wildlife habitat. He expressed concern over cutting in this area because he feels that this particular sale cannot be regenerated. He stated that if DNR wants to fulfill it's mission of protecting and increasing old growth than this would be the ideal opportunity.

#### Carol Davis - Public Citizen

Ms. Davis began by stating her agreement with WEC's and Mr. Russell's concerns. Her and her Husband live in the area and are concerned about the loss of a well-developed forest. In her opinion the money from harvesting does not seem to trickle down into the education system and she wondered where it goes? She remarked on the beautiful under story and diversity of wildlife habitat in the Z Harmony tracts and expressed her concern over losing a part of forest that has Old Growth and is on it's way to becoming an Old Growth forest. She then encouraged the Board to reconsider harvesting tracts 3 & 4 because there is Old Growth in them.

#### Charles Stirling - Public Citizen

Mr. Stirling asked the Board to look very carefully at the areas that qualify as Old Growth or are in transition to Old Growth.

## LAND TRANSACTIONS

### Pasco 16 South Land Sale # 02-076141 (Handout 2)

Debi VanBuren presented. She began on slide 1: 68 acres of Common School Trust & 14 acres of Agriculture School Trust; located in Tri-City's (Franklin County) West Pasco; South of I-182. She then gave the characteristics: Vacant; Zoned Residential; 82 acres; Pasco School District No. 1. Value: Appraised at \$1.2 million; \$14,634 per acre; deposited into the RPRA Common School: \$995,000 Agricultural School: \$205,000.

MOTION: Glen Huntingford moved to approve Resolution #1116.

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

### Gabriel Road Trespass #T3-072167 (Handout 3)

Debi Van Buren presented, she began by explaining that this is an unintentional structural trespass on Common School Trust land. Location: Clark County; 7 miles north of Battle Ground; 3 miles southwest of Amboy. The parcel has been owned by the Department since statehood, in 1997 there was a survey done on the land and it was found that the barn/mobile home were encroaching the property line.

Chair Sutherland asked how the barn and mobile home ended up on state property?

Ms. VanBuren remarked that typically this occurs when the builder relies on local opinion as to the location of the boundary line instead of a survey of the actual location.

This trespass will allow permanent access across the Davey property for logging purposes. Benefits: Sell .57 acre; Easement exchange; \$9,100 land value; all costs paid by Davey.

MOTION: Jim Cook moved to approve Resolution #1117.

SECOND: Bruce Bare seconded.

DISCUSSION: Chair Sutherland asked how many sales & trespasses would be brought next month?

Ms. VanBuren answered that she would be bringing 4-7 sales and trespasses for the Board to consider.

Mr. Huntingford asked why it took so long to bring this forward?

Ms. Van Buren remarked that sometimes the owners don't have the financial means to purchase the property right away.

ACTION: Motion passed unanimously.

### Nichols Hill Trust Land Transfer #02-075012 (Handout4)

Mr. Challstedt began with the location: Clark County; 20 miles east of Vancouver; 3 miles northeast of Washougal. Characteristics: 240 acres; 50-year conifer timber; Land Use Zone: FR-40 & R-5; No legal access for development; Common School Trust. Transfer Values: Timber: 5,827 Mbf \$2,005,000 \$ 344 Mbf; Land: 240 acres \$800,000 \$3,333 acre; Total: \$2,805,000; \$11,688 acre. Transfer Conditions: Deed restriction for open space or recreation for a minimum of 30 years; minerals reserved by Common School

Trust. Benefits: Trust divests of isolated property; timber value benefits school construction; land value reinvested in productive land; property dedicated for open space or recreation.

MOTION: Bob Nichols moved to approve Resolution #1118.

SECOND: Jim Cook seconded.

DISCUSSION: Mr. Nichols asked why the deed restriction was only limited to 30 years and not longer?

Mr. Challstedt responded that legislation states a minimum of 30 years, consequently that language was incorporated into the resolution.

Mr. Nichols asked if that applied to all trust land transfers?

Mr. Challstedt said yes.

ACTION: Motion passed unanimously.

#### Little Twin Lakes Land Purchase #08-076088 (Handout 5)

Mr. Challstedt began with location: 15 miles east of Colville; Stevens County; 41 acres; State Department of Fish and Wildlife ownership; DNR trust land to north, east, and west. Characteristics: Adjacent to DNR on three sides; 60+ year old timber; Douglas Fir, White Pine, Cedar, and White Fir; Property is without legal access; DNR has access from adjacent land. Values: Purchase price: \$65,000; DNR anticipates harvest by 2009; DNR harvest volume: 418 Mbf; Current value of future harvest: \$70,000. Benefits: Consolidates state ownership block; reduces property lines; provides timber revenue; Trust to be Common School.

MOTION: Jim Cook moved to approve Resolution #1119.

SECOND: Bob Nichols seconded.

DISCUSSION: Mr. Huntingford asked if there were any other restrictions with the purchase of this property?

Mr. Challstedt said no.

ACTION: Motion passed unanimously.

#### Echo Road Land Purchase #08-076253 (Handout 6)

Mr. Challstedt began with location: 10 miles west of Centralia, Lewis County; State Deep Creek forest management block; Section 2, Township 14 North, Range 4 West. Characteristics: 81 acres; 2 year old Douglas Fir; Soil Site Class II, Site index 132; Property has access to county road; property needed for road relocation. Values: Purchase price: \$150,000; Investment return: NPV of future harvests at 5%: \$123,000; Road relocation cost savings: \$40,000. Benefits: Adds good forest land to sustainable harvest; Consolidates state ownership; Facilitates cost effective road relocation; Provides alternate access to county road.

MOTION: Glen Huntingford moved to approve Resolution #1120.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

## **TIMBER SALES**

### Proposed Timber Sales for June 2004 (Handout 7)

Jon Tweedale - Product Sales and Leasing Assistant Division Manager, began with a brief market update including: Lumber prices surging from strong construction and remodel demand; transportation issues squeezing supply; housing starts ahead of 2003 pace, interest rates staying low. He said the rising prices of gas, oil, and steel have hit the railway industry hard and in turn has created a shortage of the cars needed to haul lumber.

Mr. Tweedale then gave an overview of the April 2004 sales results: 17 sales offered & 16 sold; 67.3 mmbf offered & 63.6 mmbf sold; \$16.5 million minimum bid & \$20.1 million sold; \$246/mbf offered & \$316/mbf sold; average number of bidders 3.4; 28% above minimum bid.

Chair Sutherland asked about the no-bid sale?

Mr. Tweedale responded that it had been a pricing issue.

Mr. Tweedale then gave an overview of the April 2004 contract harvesting results for Wehl Ridge (SE) & Hungry Bug (NE): 14 sorts offered & 10 sorts sold; 9.7 mmbf offered & 7.3 mmbf sold; \$3.5 million delivered minimum bid & \$3.5 million delivered; \$361/mbf delivered; \$471/mbf delivered; average number of bidders 1.9; 30% above minimum bid. Delivered log sales for Wehl Ridge sale: estimated lump sum value with overbid \$261/mbf; average estimated stumpage value of sorts sold \$281.45/mbf.

Under new legislation the 4 sorts that did not sell would be re-offered in 10 days.

Mr. Tweedale commented that the SE Region worked with WEC to adapt the sale to contract harvest.

Mr. Bare asked if those estimates were based on analysis rather than market derived?

Mr. Tweedale said that was correct.

Mr. Tweedale asked Charlie Cortelyou, Olympic Region Manager, and Mike Cronin, District Manager in the Olympic Region, to come forward and discuss the Z Harmony timber sale.

Mr. Cronin began by stating the objectives for the Z Harmony timber sale:

- Provide Trust Revenue within HCP framework
- Involve the community early in the process
- Protect unique forest structures and habitats
- Protect potentially unstable slopes
- Protect water quality and fish habitat
- Identify and protect forested wetlands

Mr. Cronin explained the interdisciplinary approach that was taken with this sale including:

- Forest hydrologist analysis of hydrologic effects
- WDFW and DNR wildlife Biologist consideration of Eagle, Osprey, and Herons

- DNR Geologist review of potentially unstable slopes
- Discussions with neighbors
- DNR Foresters implementation

Water quality, slope stability, wildlife habitat, and visual impacts are mitigated by: Great Blue Heron rookery-8.1 acre no harvest zone in unit #2; riparian and wetland buffers; leave tree and snag retention strategy; 191 acres considered, 151 acres included. He remarked that Old Growth had been harvested in the 20's and that there are a considerable number of large diameter trees; they have been identified for retention. 33% of units 2, 3, & 4 have been retained and no harvest activities are planned, that includes the riparian zone, the Heron rookery, the wetland management zones, and the clumped retention zones. 50 acres in the North area of the Harmony sale have been deferred until a long-term eagle management plan is in place. The Hydrologic analysis indicated that impacts from this harvest on Fisherman's Harbor would have minimal increases in winter storm flow. He then showed a simulation of the harvest area prior to the harvest and compared it to a simulation of how it might look after the harvest (slides 11 & 12, Handout 7).

Mr. Nichols asked about the marking procedure on the leave trees.

Mr. Cronin responded that they paint the individual trees whether it's old growth remnant, a large unique tree or a species that's rare. They then locate clumps that serve multiple objectives such as visual and they have had real success with this procedure.

Mr. Nichols asked how they ensure none of the old growth trees are taken?

Mr. Cronin responded that the contractor meets with the purchaser and the operator of the equipment to go over the work map that indicates how the trees are marked. Additionally DNR staff is on site 2-3 times a week to make sure they are not being cut; there is also a penalty in the contract for cutting any marked trees.

Mr. Nichols asked if the diversity of species was included in the clumps?

Mr. Cronin responded that they are included in the clumps.

Mr. Nichols asked how this is consistent with the HCP?

Mr. Cronin responded that there would be more retained with this harvest than there was with the previous one, as result this stand will have more variety in age class.

Mr. Tweedale asked Tami Reipe, Habitat Conservation Plan Implementation Manager, to come forward to address these issues.

Tami Reipe came forward to explain how this sale is consistent with the HCP. She stated that this is a perfect example of the intent of the HCP in identifying riparian management zones, wetland habitats, and the retention of large structurally unique trees. She referenced the table shown earlier that had the structurally complex stands and stated that it was a result of implementing the HCP along with the riparian conservation, spotted owl, and Marbled Murrelet strategies. The riparian zones are the primary area where protection of unlisted species is going to be resulted. She concluded by saying that this is a perfect example of successfully implementing the HCP.

Mr. Nichols commented that one of the issues raised was not harvesting this area until there was a plan, and would Ms. Reipe consider this a plan?

Ms. Reipe said yes it could be called a plan.

Mr. Nichols asked if this sale was a step in the direction to creating structurally complex forests.

Ms. Reipe responded that it does provide the structural component of retention of older stands into the next rotation.

Mr. Cook wondered if this harvest was delayed what more would be done to develop the required Old Growth forest stands and to reach the HCP goals?

Ms. Reipe stated that in her professional opinion this sale fulfills the HCP intent. She remarked that the older forest component that WEC referenced is to be achieved with this sale. She added that nothing else needed to be done.

Mr. Tweedale said that 25-30% of the area is protected in these deferred sales, plus sixty acres of additional older habitat.

Ms. Reipe pointed out that there are no NRF and Dispersal areas in the Straits planning unit, however it is in the range of the Marbled Murrelet strategy. DNR is currently working on the creation of a long-term strategy and the Straits planning unit will have Marbled Murrelet protection.

Mr. Nichols asked if the North unit was included in this?

Mr. Cronin said it would be deferred until a long-term eagle strategy is put in place.

Mr. Bare wondered what the largest diameter of trees being cut was.

Mr. Cronin responded that it's in the 40-44 inch range.

Mr. Bare asked if the same was true for the Red Cedar and Maple? He asked what size the leave trees are?

Mr. Cronin said yes. He responded that dominants represent the largest size class.

Mr. Cook referenced the simulation map and asked what the density of trees near the houses is compared to where the harvest is?

Mr. Cronin responded that it varies with how heavily they were cut in the past.

Mr. Cook asked if one developer or several developed the area.

Mr. Cronin said that it was not a planned development but more a series of developments that occurred over a long period of time.

Mr. Tweedale indicated that this sale would cost more because of the leave trees and the distance to facilities, that being the reason for the higher stumpage value.

Chair Sutherland asked, if the sale were approved, when would harvest begin?

Mr. Cronin said late summer or fall.

Mr. Tweedale referred back to WEC's presentation regarding the budget proviso. He clarified that the budget proviso only requires some notice of possible harvest of trees 160+ years prior to the cutting or removal but not prior to BNR approval, auction, or confirmation of the sale. This sale was laid out before the budget proviso and in the SEPA document it specifically discusses the stand characteristics; no trees over 160 years will be cut.

Mr. Nichols requested that the Board receive a copy of the budget proviso.

Mr. Huntingford discussed the fact that the local Board of County Commissioner's had gone on a tour of this site with DNR staff and local residents. He stated that the issues talked about today are similar to the ones brought up on the day of the tour. He then emphasized that the real concern seemed to be for Fisherman's Harbor and when they were on the tour they saw how development and logging have occurred in that area. He remarked that the Department tried to meet the public's concerns by staying away from the canyon that drains into Fisherman Harbor. Additionally the Department left areas around streams and wetlands and in Mr. Huntingford's opinion the Department did an excellent job of meeting the community's needs in this sale. He commented that not only is he speaking for the residents in the county but also all the counties and trusts. He concluded that DNR communicated with the public early in the process and incorporated those issues into the harvest plan; he stated that the Department has addressed the public's concern while still accomplishing what is legally required of DNR, which is timber harvest.

Mr. Tweedale asked for approval of the June sales: 15 sales at 46.6 mmbf; \$9.8 million minimum bid; average \$209mbf. Recommend all 15 sales at 46,655 mbf with a minimum bid of \$9,756,000 be approved for auction for the month of June 2004.

MOTION: Jim Cook moved to approve June 2004 Timber Sales.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

## **CHAIR REPORTS**

### Analysis on Preferred Alternative (Handout 8)

Bruce Mackey, Lands Steward, presented, he stated that the purpose of today's presentation is to show the Board how the Department could reach the 636 annually as soon as possible, and to look at the hiring implementation and cash flow implications of doing that. He then referenced a graph (slide 3, Handout 8), which showed a comparison of transition time lines. Mr. Mackey stated that cash flow involves the whole department\organization with respect to costs and support systems. He commented that he believes DNR can reach the 636 sooner and that it would create more net revenue in this decade as well as providing intergenerational equity. The difference between alternative 1 and the preferred alternative is that the preferred alternative would bring in 400 million dollars to the beneficiaries that they wouldn't have received otherwise in this decade and quite possibly the next decade.

Mr. Mackey said that more numbers would be brought forward in June and a report would be given monthly as this process continues. He acknowledged that the Board would like to see if there is a way to



exceed the 636 in the later years and the Department would account for any arrearage and bring that analysis to the Board as the end of the decade nears.

Mr. Bare asked for clarification on arrearage and how it would be calculated?

Mr. Mackey responded that if the 636 mmbf were adopted then there would be arrearage.

Mr. Mackey continued that 400 million dollars a decade would take investment but at this time does not know exactly how much. He stated that to reach and sustain the 636 mmbf RMCA deduction would be close to 30%.

Mr. Huntingford asked if that number was based on the assumption that everything would stay the same as it is today.

Mr. Mackey conveyed that the FDA deduction would be around 31% and the RMCA would be around 28-30%.

Mr. Bare asked if the Board had adopted alternative 1 what would the fee be?

Mr. Mackey said it becomes more dramatic with the red line because the fixed costs become a larger part of the total cost.

Mr. Bare stated that whether more or less is cut there is an increasing management fee structure.

Chair Sutherland added that even with alternative 1 in the out years the percentage of retainage would have to increase over time due to L&I, medical, wages, etc.

Mr. Mackey remarked on Dr. Bare's earlier challenges regarding cost estimates. He stated that he has worked with DNR economists and budget staff and that the analysis would be brought forward soon. He continued that September 04 revenue forecast was used in the analysis; it may be conservative but it's more prudent.

Howard Thronson, Product Sales and Leasing Division Manager, presented the analysis requested in Resolution #1110. He emphasized that all of this comes together in the Regions as far as implementation and carryout. He stated that this is an operational analysis presented to the Board concerning their selection of the sustainable harvest level. He began by showing slide 5 (Handout 8).

#### *Staffing Needs*

- Potentially 95 FTEs over the decade
- Most hiring will take place within the next 5 years
- Have good numbers for the next two years- will update each biennium based on actual activity

Mr. Thronson explained the complexities of staffing using the following example: a forester produces 3-8 million bf per year for that FTE, it's variable depending on the community and timber. These FTE's all have a cost associated with them at about 65,000-100,000 a year.

Chair Sutherland pointed out that those numbers don't equal a fully equipped person. 100,000 is the rule of thumb in looking at total cost of an FTE.

Mr. Thronson referenced slide 6:

*Implementation of a Preferred Alternative*

*Time to implement preferred alternative is constrained by:*

- Current staffing
- On the ground policies and regulations
- Budget

*Project Management*, (These are ongoing projects primarily in Gretchen Nicholas' division, some of which are critical and need to be accomplished in order to implement the preferred alternative.

- Riparian procedures
- Marbled Murrelet Long-term Constraint Strategy
- Riparian/MM/NSO HCP F.P. Crosswalk
- Marbled Murrelet Surveys
- NSO Circle Strategy
- SW Washington NSO Management Analysis
- NRF/Dispersal Delineation
- Developing and staffing legislative mandated committees
- Lynx Plan Update
- HCP annual reports
- HCP 5-year comprehensive review
- HCP implementation monitoring
- HCP effectiveness & validation monitoring
- Finish the FEIS on SH
- Eastside Sustainable Harvest
- Forest Resource Plan
- Sustainable Harvest Implementation plans for each HCP planning unit
- Implementation of Forest Health Bill
- Product Sales Transition to new sustainable forestry levels

Mr. Thronson referenced the March Board meeting where a presentation was given on how to reach the 636 at the end of the decade; it would be a cumulative 5.5 billion board feet.

Mr. Thronson talked about slide 10 which showed Western Washington Timber Net Revenue to Beneficiaries: Decade One & Two, based on a sold-volume basis, assuming 2/04 forecast stumpage @ 30% management funds. In the first decade the net return to the beneficiaries and cash flow would be 1.15 billion, the second decade would be 1.5 billion. He remarked that the Board wanted to know how the Department could reach the 636 sooner and slide 11 showed a graph with those numbers: In the first decade because of ramp up costs it would be 1.24 billion and decade two would be 1.34 billion; the cumulative would be 2.58 billion. He then addressed intergenerational equity and commented that March's presentation had a longer ramp up period, this new proposal gets to the 636 between fiscal year 10 & 11.

Mr. Mackey stressed that the second decade has not been run yet and reminded the Board not to look at the numbers as absolute.

Mr. Bare asked how much volume for the decade was included in the March graph?

Mr. Mackey said 5.45 billion.

Mr. Bare asked about the red line for March?

Mr. Thronson said 6.36 billion.

Mr. Bare asked what the volume was for the yellow in the May presentation.

Mr. Thronson said 5.9 billion for the yellow and 6.00 billion for the red line.

Mr. Hulseley said the numbers were worked on late last night and that May's presentation was based on 5.9 billion for decade one and two. The March presentation was based on 5.5 for decade one and 6.5 billion for decade two; holding stumpage at 300 for decade one and 325 for decade two, 30% was taken off for management investment.

Mr. Mackey reminded the Board that Angus Brodie has not modeled this yet.

Mr. Thronson went to slide 12 (Handout 8), which compared alternative 1 with the March presentation and today's presentation. The graph showed a decrease in net value to the beneficiaries by up to \$300 million.

Mr. Thronson clarified that the Westside sales volume for alternative 1 was 4.088 billion bf the first and second decade.

Mr. Hulseley added that the published values were 396 billion for decade one and 403 billion for decade two, the same stumpage assumptions were used for decade one & two as with the other alternatives (300 for decade one and 325 for decade two); the price was held constant against the three simulations.

Mr. Bare asked why the number changed from 396?

Mr. Hulseley responded that the 396 is a simulated harvest level volume associated with alternative 1.

Mr. Thronson continued with an outline of the next steps in the SHC process:

- Work in progress: this a complex project
- Committed to detailed work which will address arrearage
- Dependent upon FEIS analysis before final DNR recommendations are made
- Continue to observe the Management Principles and Objectives
  - Periodic reports
  - Look at the options

Mr. Mackey commented that this not a simple issue but the Board has been clear about the policies desired and the Department continues to work on the ones outlined in the Resolution and the Objectives. He stated that continuing on this route would have implications including going to the legislature for changes. The Department will continue looking at the organization for efficiency and the financial impacts. He referenced slide 15 (Handout 8), which showed the net revenue to the beneficiaries upon investment.

Mr. Mackey concluded by referring to the Management Principles and Objectives that are guiding the department in their pursuit of reaching the 636 target, as well as monitoring results.

Chair Sutherland asked Mr. Mackey when they anticipate the Board to be prepared for final decisions.

Mr. Mackey said in June Gretchen Nicholas and Jim Hurst would bring roads, cumulative impacts, and endangered species issues to the Board. In July there will be a briefing on the modeling results from the

FEIS alternatives, the comments in June and the analysis in July. There will be individuals from the Technical Review Committee on hand to discuss the process. He stated that the Board would receive the FEIS in mid to late July and then make the final decision at the August Board Retreat Meeting.

Mr. Bare expressed concern over the management fee then asked if DNR had to go back to the legislature for a management fee increase beyond 25%?

Mr. Mackey responded that was correct, the RMCA fee is set in statute and the limit is 25%.

Mr. Bare wondered if the legislature changed the fee to 30% would it vary between the RMCA and the FDA?

Mr. Mackey said no, but there are policy choices to consider including going to the legislature and asking for a 35% ceiling, which would maximize the return to the beneficiaries and provide flexibility. In looking at the cash flow analysis the percentage to operate is not a constant; if it could float it would be better managed.

Mr. Bare asked if the legislature sets the maximum?

Mr. Mackey said yes but the Department has to have the Board's authorization.

Mr. Cook referred to the March and May's presentation figures at 25% maximum and asked if the Department would "go broke" faster or slower?

Mr. Mackey responded that Mr. Thronson's team has been asked to do shorter contracts and they are being modeled in the cash flow analysis. The preliminary analysis shows that under current operations the Department would be in the hole at the end of fiscal year 07', by shortening the contracts and increasing volume both alternatives could be extended out two years.

Mr. Cook commented that in either case it's not sustainable so what happens?

Mr. Mackey responded that changes need to be made soon to build cash flow.

Chair Sutherland pointed out that the previous administration had asked the legislature to raise the fee to 35% and Commissioner Sutherland asked the legislature not to raise that fee until the Department had the opportunity to work through those issues. Since 2001 those issues have been worked on continuously but they have not been resolved.

Mr. Cook asked what year the legislature set the management fee at 25%?

Mr. Thronson replied that it was 1972. He then explained how the changes in operational complexity have not kept up with the 25% management cost.

Mr. Bare commented on the reference to the Management Principles and Objectives then asked if there were other sources for funding. He expressed his desire to continue the discussions on additional funding.

Mr. Mackey said there would need to be an initial investment in order to see net revenue returns to the beneficiaries. He then talked about associated costs and said that the Department spends a lot of time analyzing how money is allocated and DNR is still pursuing how to attain additional funding. He then

suggested having someone come in and look at the allocation of funds and bring that information to the Board.

Mr. Bare said that would be helpful.

Mr. Cook said in his opinion the beneficiaries need to share the cost of the management fee.

Chair Sutherland talked about repositioning assets and how the land transaction program provides additional funding. He suggested that in the next couple of months he'd like to discuss the various programs that could potentially provide more revenue.

#### Forest Resource Plan Revision (Handout 9)

Chair Sutherland introduced Clay Sprague and explained that he and a team of four people would be completing an update of the Forest Resource Plan by June 30, 2005.

Clay Sprague, Forest Resource Plan Project Manager, presented and introduced Farra Arnold, Assistant Project Manager, Jodi Barnes, Administrative Assistant, Dave Dietzman, SEPA/EIS Support, and Judith Holter, Budget Support.

Mr. Sprague began with slide 3 (Handout 9), which showed the project timeline. He explained that the SEPA scoping process had been extended to May 17 due to the amount of comments received. After the scoping phase the team will work on policy review and development including an additional step where key stakeholders will be asked for input on draft policies. He continued that by late August or early September the draft policies would be incorporated into the DEIS process and he anticipates the DEIS to be published by January 2, 2005. The DEIS comment period should be 45 days (into mid February), based on those comments the FEIS should be finalized one year from now.

#### *Elements of Scoping*

- Purpose of the Forest Resource Plan
- Management Objectives
- Major Policy Categories
- Policy Issue Areas
- Environmental Impact Statement Analysis
- Scoping Notice (March 15-May 17)
- Public Workshops (March 22-April 1)
- Stakeholder Outreach (March 1-May 13)

Mr. Sprague referenced the Management Principles and Objectives and commented that they have been included in the scoping comments (Handout 10).

Slide 6:

#### *Preliminary Results of Scoping*

- Trust Mandate
- Recreation, Public Use, and Access
- Old Growth Protection
- Forest Certification
- Forest Land Conversion

Slide 7:

#### *Preliminary Results of Scoping continued*

- Department Planning Efforts
- Annual Monitoring, Tracking, and Reporting
- New Revenue Sources
- Forest Health and Fire Protection
- External Communication and Education

Slide 8:

*Next Steps*

- Summary of Scoping
- DNR Executive Steering Committee
- DNR Policy Focus Teams
- Policy Review and Development

## **PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST**

### Bob Dick - American Forest Resource Council (AFRC)

Mr. Dick stated that DNR should be commended for what they have been and are doing in relation to the SHC. He reminded the Board and DNR that financial analysis is essential when something dramatic and new is being done. He commented that he heard a Sierra Club advertisement on the radio that DNR would be increasing the harvest level by 35%, Mr. Dick said that's incorrect. The only way to get to 35% is going back to July 1998, under the previous administration, when the harvest level was reduced from 655 to somewhere around 500. He stated that it was administratively created and not by action of the Board.

### Phil Kitchel - City of Forks

Mr. Kitchel stated that the decision in the early 90's by Commissioner Boyle to not offer for sale the over mature stands in the Clearwater block is one of the reasons DNR is currently suffering revenue losses. There were 12 sales in the Clearwater block that had cleared a two-year owl survey and were deferred from harvest, all of those parcels were Common School Trust and UW Trust; to this day they have never been offered for sale. Over a period of 4-5 years the State legislature removed \$12 million dollars the first year, \$10 million the second year, and \$10 million the third year all for Salmon Recovery from the FDA account. Half of that amount went back to the Counties and was then disbursed to the junior taxing districts and half went back to Salmon Recovery fund; the legislature still has the authority to do that. He continued that the interest from the FDA account goes to the general fund not back into the FDA account and that should be considered for legislation as well. He then explained that the former Commissioner of Public Lands by state audit removed \$3 million dollars from the FDA account for "Inappropriate overhead allocations", which were used for the HCP and the funds were never returned to the FDA account, he suggested that the \$3 million plus interest be returned to the FDA account.

### Carol Johnson - Executive Director - North Olympic Timber Action Committee

Ms. Johnson referenced Mr. Mackey's earlier comments about bringing in independent professionals to assist in ramp up issues, she suggested that private industry be represented in that committee because of the different aspect they could bring to the idea table.

Chair Sutherland brought the Board's attention to the Oil & Gas Auction that was held last week. 604 leases were offered and all but 3 were accepted; bonus bids totaled \$1.7 million dollars. Total amount collected and deposited was 357,000; the first year's rent to be collected is just over 400,000 dollars. The total amount the Department will receive this year is 2.424 million dollars, if the leases are continued for

the duration of the 10-year term the Department would receive \$7.7 million dollars in lease rentals. This is an example of improving financial circumstances.

Chair Sutherland asked if there was anyone else present wishing to make comment before the Board? Seeing none, hearing none.

Meeting adjourned at 12:10 p.m.

Approved this \_\_\_\_ day of \_\_\_\_\_, 2004

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Doug Sutherland, Commissioner of Public Lands

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Bob Nichols for Governor Gary Locke

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Bruce Bare, Dean, University of Washington

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R. James Cook, Dean, Washington State University (Interim)

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Terry Bergeson, Superintendent of Public Instruction

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Glen Huntingford, Commissioner, Jefferson County

Attest:

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Sasha Lange, Board Coordinator